
CHAPTER: Earnings

SECTION: Financial Records and Reports

Section 410

INTRODUCTION

Complete and accurate records and reports are essential for a savings association's board of directors and officers in making informed decisions and in clearly understanding and supporting transactions. Also, an association must have policies, procedures, and controls established to ensure that management is properly maintaining financial reports and records. Inaccurate, incomplete, or unreliable information jeopardizes the safety and soundness of an association because unidentified or undisclosed problems could prevent or delay necessary corrective action and undermine the association's viability.

The Office of Thrift Supervision (OTS) must have reliable data to assess and monitor a savings association's financial condition and activities. Your review of an association's books and records, internal reports, and reports to the regional office is very important. Your review allows OTS to rely on the association's records throughout the examination, supervision, and monitoring processes.

RISK-FOCUSED REVIEW

You should direct the focus of your review to assessing the accuracy and adequacy of a savings association's records and reports. Accuracy is essential to properly evaluate and monitor an association's financial condition. This involves obtaining satisfactory explanations of all material variances, trends, or other items and assessing the reasonableness of financial records. You must also evaluate an association's policies and procedures for relevance and sufficiency.

You should not spend an inordinate amount of time verifying a minor account if it has a small balance and does not consist of large, offsetting transactions. You should report to management minor errors or omissions that you discover.

Regulatory Requirements

Pursuant to Part 562 all savings associations and their affiliates must maintain accurate and complete records of all business transactions. The savings association must keep the records in the United States. They must be readily accessible for examination and other supervisory purposes within five business days upon request by OTS, at a location acceptable to OTS.

Section 563.170(c) requires each savings association to establish and maintain an accurate and complete record of all business that it transacts. An association must establish and maintain such other records as required by applicable statutes or regulations. The documents, files, and other material or property comprising these records must be available for examination and audit.

Change in Location of Records

Under § 563.170(d), savings associations must perform the following actions before they transfer the location of general accounting or control records, or the maintenance thereof:

- Obtain a board of directors' resolution authorizing the transfer or maintenance.
- Send a certified copy of the resolution to the regional director.

Incomplete or Inaccurate Records

Regions should immediately issue supervisory directives if an association's books and records are incomplete to make an examination impossible or if they do not provide complete and accurate details on all business transactions. The caseload manager (or equivalent) should promptly meet with the association's board of directors, discuss the problem, and require prompt corrective action through a formal supervisory agreement. If the association does not correct the deficiency, the caseload manager

should refer the matter to OTS's Regional Counsel for initiation of cease-and-desist proceedings.

You should be particularly alert to violations of Part 562 and § 563.170(c), as the presence of incomplete and inaccurate records historically is evidence of severely deficient operating standards and a resultant deteriorating financial condition.

Records and Reports

You may gather data from savings association records, such as:

- General ledger
- Subsidiary ledgers
- Journals
- Vouchers
- Various schedules and reports.

Various schedules and reports that will be useful to you in your review process include the following:

- Internal reports that staff submit to management and the board of directors.
- The Thrift Financial Report (TFR).
- External and internal audit reports.
- Holding company annual reports.
- Securities and Exchange Commission 10Q and 10K filings.

You may also obtain additional information from regional office monitoring activities and work performed by external and internal auditors who attest to the integrity of an association's books and records.

Savings associations should maintain internal systems and procedures to ensure that reporting reflects appropriate regulatory requirements. Clear, concise, and orderly records should support the compilation of various data. Proper documentation provides not only a logical tie between financial report data and an associa-

tion's records, but also facilitates accurate reporting and verification.

General and Subsidiary Ledgers

Each savings association should have a chart of accounts describing the nature and general content of each general ledger account. You should encourage associations that do not have such charts to develop one. The chart of accounts will not only aid in your review, but will also provide consistency and continuity in an association's accounting department.

You should obtain the general ledger and appropriate subordinate organization (for example, service corporation, operating subsidiary or lower-tier entity as defined in Part 559) ledgers. You should review the individual asset, liability, capital, and income and expense accounts for their history, recent activity, balance, and propriety. You should investigate any extraordinary items or items that are not self-explanatory, and you should review and reconcile any catch-all accounts (that is, other assets, other liabilities, miscellaneous, or suspense accounts). If your review discloses any errors or omissions, you should determine whether they resulted from inadequate policies, deficient procedures, or practices not in accordance with an association's policies and procedures.

During your review of the general ledger and subsidiary ledgers, you should determine that the account titles accurately reflect the account contents. A title describing an account may not always represent its content. The determination that an account contains the proper items and has a true balance helps to ensure that all line items are being recorded properly on the TFR. If re-classifications are necessary, you should advise management accordingly and follow up to see that the association has done so correctly.

Thrift Financial Reports

OTS requires each insured savings association to file a TFR with the Financial Reporting Division (FRD) office in Dallas on the 30th day following the end of each calendar quarter. Schedules CMR (Consolidated Maturity/Rate) and HC (Thrift Holding Company) are due 45 days following the

end of each calendar quarter. “Clean” data are typically available within 45 days following the filing of the reports. OTS uses the TFR to collect detailed financial information in a consistent format on all regulated savings associations, to collect uniform information on industry activities, and to facilitate supervision by OTS. The TFR discloses an association’s financial condition, the results of its operations, and other supplemental data. OTS uses data from this report as the basis for its Thrift Time Series report. This report in turn produces other reports, such as the Uniform Thrift Performance Report (UTPR), the Thrift Monitoring System (TMS), and the Report of Examination (ROE) financial pages. You may access Thrift Time Series reports through the Thrift Information Management System (TIMS).

Thrift Financial Report Requirements

The Competitive Equality Banking Act of 1987 (CEBA) requires savings associations to file financial reports that use generally accepted accounting principles (GAAP).

Savings associations must complete the financial sections of the TFR on a consolidated basis. You should review the TFRs to ensure that all consolidations are performed properly, and that associations are following TFR instructions in completing their reports.

OTS uses the Consolidated Maturity and Rate Information on Schedule CMR to collect detailed information relating to an institution’s interest rate risk. A savings association must file Schedule CMR if it meets one of the following criteria:

- Total assets are in excess of \$300 million.
- The risk-based capital ratio is less than 12 percent.
- The regional director directs the institution to file the schedule.

Many savings associations that OTS does not require to file Schedule CMRs do so voluntarily. These associations must conform to the same filing deadlines and accuracy requirements as

associations that OTS requires to file the schedules.

OTS requires savings associations to file TFRs electronically with the FRD using the OTS Electronic Filing System (EFS). The EFS may interface with the general ledger to create an electronic relationship between the general ledger and the TFR line items. This interface automates the preparation and filing of the TFR and shortens the learning curve when there is a change in an association’s report preparer. The software also contains an editing function that helps reduce reporting errors. It is important that you thoroughly review an association’s books and records and not rely on the interface reporting capability.

Review of the Thrift Financial Report

You should review the content of the most recent quarterly TFRs for accuracy. You should also reconcile line items shown on the reports to the general ledger, the subsidiary ledgers, and other appropriate sources, such as loan registers. The TFR Instruction Manual provides instructions on the content of TFR line items. The instructions explain, line-by-line and category-by-category, what information is allowable for placement in specific TFR line numbers. OTS revises the instructions quarterly and generally revises the forms annually. Both industry and regulatory personnel must have up-to-date instructions for accurate classifications and reconciliations.

The TFR Instruction Manual is available on the OTS Web site. Also available is a Q & A and News which are good sources of information when reviewing an institution’s TFR.

If you discover any errors or omissions during the TFR review, you should determine whether any association policies, procedures, or deficient or inadequate practices caused them. You should explain and document in the ROE any significant adjustments, including their causal factors. A significant adjustment results in any one of the following:

- Failure of a capital requirement.
- Change in an association's prompt corrective action (PCA) category.
- Change in a component rating.
- A change that is significant for regulatory reporting purposes.

Generally, you should not require that an association amend a prior period TFR unless the adjustment is significant. If the adjustments are not significant, you should direct the association to show the adjustments on its next TFR scheduled filing.

Errors or omissions in one schedule usually have repercussions within other schedules. As a result, when you discover and correct an error in one schedule, you must also amend other schedules affected by the error. For example, if an association classifies a credit in Schedule SC as a mortgage loan, and you subsequently reclassify it as a commercial loan, the association then must make the appropriate changes in Schedule CMR. You must disclose any errors discovered in the TFRs on the proper page(s) in the ROE, including financial report pages.

The accuracy of the TFRs is extremely important, because OTS uses information contained in the reports to monitor savings associations between examinations. If associations submit inaccurate data, OTS may not detect changing patterns of behavior or deteriorating trends. When compounded, a distorted picture of the industry condition could result.

Internal Reports to the Board of Directors

Boards of directors have extensive fiduciary responsibilities in guiding the activities of their savings associations. Creditors and depositors have the right to expect that an association's board of directors and officers use safe, sound, and ethical practices.

You should do the following examination procedures:

- Ascertain whether management presents any reports to the board besides the required reports, such as the TFR.
- Review for accuracy and adequacy of the content of the additional reports.
- Determine whether the submission of inaccurate or inadequate reports is the result of an intentional act by management.

At a minimum, reports to the board of directors should include the following operational information:

- A summary of significant financial activity.
- Documentation detailing loans granted.
- Delinquencies.
- The status of previously approved ongoing projects (including loan projects).
- The status of any real estate workouts.
- Liquidity reports.
- Profit and loss statements with yearly and year-to-date comparisons.
- Foreclosure status reports.
- Classified asset summaries.
- Any salient trial balance data.

If you discover any material errors or omissions in these reports, you should determine and explain in the ROE the causal factors.

Monitoring Reports

Regional offices monitor savings associations' reports on an ongoing basis. Some regions provide examiners with reports that the regions generate from information gleaned during the surveillance process. If your regional office sends monitoring reports to you, you should review them for any of the following:

- Incipient adverse trends.
- Material deviations from one period to another.

- Extraordinary developments.
- Other matters of concern.

You should follow up on all items deemed worthy of further investigation and obtain satisfactory responses from management that explain specific questionable matters.

REFERENCES**Code of Federal Regulations (12 CFR)**

§ 552.11	Books and Records
§ 560.160	Asset Classification
§ 560.172	Re-evaluation of Real Estate Owned
Part 562	Regulatory Reporting Standards
§ 563.170	Examinations and Audits; Appraisals; Establishment and Maintenance of Records

Other References

Office of Thrift Supervision, *Thrift Financial Report Instruction Manual*

Office of Thrift Supervision, *Directors' Guide to Management Reports (October 1999)*

U.S. League of Savings Institutions, *Standard Accounting Manual*